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UNCLAS SECTION 01 OF 03 JAKARTA 000255

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SUBJECT: YUDHOYONO CANS THE CGI

REF: 2006 JAKARTA 7013 - Indonesia Repays IMF Early

11. (SBU) Summary. In a surprise announcement, President Yudhoyono told the media on January 24 that Indonesia would end the Consultative Group on Indonesia (CGI) donor forum. While many observers believed the CGI format had outlived its usefulness, the timing and abruptness of the announcement -- two hours after a meeting with visiting IMF Chief Rodrigo de Rato -- surprised donors. Neither did GOI officials do a good job explaining the financial implications of ending the CGI--at first, GOI economic officials said the Government would seek to issue more bonds while it curtailed loans from donors, only to assure donors in the days following that Indonesia was grateful for donor assistance in past years and would need continued support. Deputy Minister at the Coordinating Minister for the Economy, Mahendra Siregar, told us the GOI is having internal discussions on a new format for dialog to possibly include a GOI-led high-level multilateral policy meeting, and in-depth technical discussions on a program or sectoral basis. We suggested the GOI consider developing forums to discuss poverty, investment climate, governance, decentralization, judicial reform, disaster mitigation and infrastructure. End Summary.

Good-bye CGI

12. (SBU) President Yudhoyono told the media on January 24, "Indonesia no longer needs the CGI. I deem it necessary to end the format which we know as the CGI forum in this year of 2007. I declare that there is no longer a need for the existence of the CGI forum as before." Although the GOI's ambivalence towards the CGI process had been the subject of discussions for months among donors, the surprise announcement came two hours after a press conference with visiting IMF Managing Director Rodrigo de Rato. (Note: The IMF Jakarta office told us de Rato had not discussed the CGI with Yudhoyono.) The CGI had been meeting in its current format since 1992, with a large annual multilateral "pledging" meeting and smaller working groups on specific issues such as investment climate led by a few donors. That the large CGI forum had begun to outlive its usefulness was well-known, but the timing and the abruptness of the announcement took donors by surprise. The World Bank was quick to respond with a statement supporting the President with the comment, "We welcome President Yudhoyono's announcement...that Indonesia would no longer rely on the CGI framework for determining its development financing...The old CGI model is no longer relevant..."

No Immediate Impact on GOI Budget Financing

13. (SBU) The elimination of the CGI Forum will have little immediate impact on the GOI's budget financing. The "pledging" aspects of the forum had become largely a formality, with donor decisions pre-determined before the meeting, in keeping with each donor's budget and legislative process. In 2006 the CGI pledged \$5.4 billion in loans and grants for budget support and development programs. The GOI spent weeks preparing for the annual CGI meeting, and then was forced to sit through often tedious statements from dozens of donors, many of which had only small programs in Indonesia but relished their yearly moment in the spotlight. Finance Minister Sri Mulyani Indrawati was quoted by the media as stating that the annual CGI event was a "costly and ceremonial" wrapping-up ceremony.

14. (SBU) The MOF's DG for Debt Management Rahmat Waluyanto was also quoted by the media as saying, "We will gradually reduce our dependence on foreign debt, and replace it with rupiah-denominated bonds financing." He added that foreign debt tends to carry a "political agenda," is inflexible, and is vulnerable to exchange rate risks. However, the GOI has sounded a much more cautious note in private. Deputy Minister for the Economic Cooperation and International Financing at the Coordinating Ministry for Economic Affairs, Mahendra Siregar, told us on January 29 that Indonesia is very grateful to donors for the assistance over the years and seeks continued support. The CGI format has served its purpose, however, and it is time for a "different mechanism for dialog," Siregar said.

15. (SBU) Siregar noted the GOI has no immediate plans to change its

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current debt structure and was not signaling any intention to replace foreign loans with bonds. He said the GOI was well aware of the spread between bond interest rates and concessional loans. Many of Indonesia's bilateral and multilateral loans are at concessional rates between 3-5%, as compared to average interest rate on domestic bonds of 11-12%. The Government of Indonesia has \$67 billion in foreign debt (about 22% of GDP), which it hopes to reduce to 13% of GDP by 2009 (See Table 1).

Table 1: Indonesia's Debt (December 2006)

Bilateral	42%
Japan	\$ 25 billion
France	\$ 1.6 billion
USA	\$ 1.6 billion
Germany	\$ 1.3 billion
Multilateral	27%
World Bank	\$ 8.5 billion
ADB	\$ 8.4 billion
Other	
Global Bonds	7%
Others (mostly export credits)	22%

Source: Ministry of Finance, Bank Indonesia

Source: Ministry of Finance

Dialog in What Form?

16. (SBU) Siregar told us that the GOI was still having internal discussions on a new format for donor consultations. He suggested that the financing gap discussions be separate from the development dialog. For the latter, he recommended three possible scenarios: a

high-level policy dialog, to which Ambassadors would be invited; annual meetings with key donors covering a range of economic issues, including assistance; and more technical, program or sectoral discussions. One suggestion by the ADB and the World Bank is that Indonesia adopt a structure more like the Philippines, with a large multilateral development forum annually, followed by technical meetings on an "as needed" basis. We suggested that the most useful areas for in-depth sectoral discussions would be investment climate, poverty, governance, decentralization, judicial reform, disaster mitigation and infrastructure. Some new GOI-led format may now take the place of the CGI "working groups," some of which have been very successful in coordinating donor programs and supporting GOI initiatives.

IMF Visit: Good Behind the Scenes

17. (SBU) IMF Chief de Rato visited Indonesia on January 24 during a three-nation tour and had several high-level meetings with Cabinet officials and President Yudhoyono. It was the first meeting of an IMF Chief with the Indonesian President since former President Soeharto signed a controversial IMF rescue package during the 1997-98 financial crisis. The media photo of then IMF chief Camdessus standing with folded arms (viewed as a rude and imperious gesture in Javanese culture) behind a seated Soeharto as he signed the agreement, triggered outrage among many Indonesians. Indonesia repaid its \$7.8 billion standby reserve loan to the IMF in 2006, three years ahead of schedule (ref A) clearing all its outstanding IMF debt. The IMF has welcomed the move in public statements.

18. (SBU) Despite the tough media coverage, the IMF Senior Representative in Jakarta told us the de Rato visit went well behind the scenes, with good discussions between de Rato and key Cabinet officials. President Yudhoyono was "engaged and well-briefed." De Rato also participated in a roundtable discussion with academic economists, Parliament and business leaders. GOI officials discussed the "image problem" of the IMF in Indonesia. Since

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Indonesia has repaid all its IMF loans, its status is now one of a member "no longer using Fund resources," with no formal post-program monitoring. The IMF continues to have advisors at the Central Bank and Directorate General for Tax, and maintains surveillance of the economy and regular discussions. De Rato himself was unaware of the CGI announcement within hours of his meeting with the President, and when asked responded, "What's the CGI?"

19. (SBU) Comment: Political considerations clearly drove the decision to end the CGI. Given the IMF's public unpopularity here, it is hard for the GOI to be linked to the IMF in any way, despite (or perhaps partially due to) Finance Minister Mulyani's former job as the Executive Director for Southeast Asia. So with de Rato coming to town, the GOI seems to have concluded that it needed to take some policy decision that would sit well with its economic nationalist critics, even if the IMF was only marginally involved in the CGI. Foreign debt is nearly as unpopular as the IMF--Parliament in particular feels the GOI carries too much foreign debt and often hauls the Finance Minister in for lengthy sessions to question her on the issue. Mulyani was also quoted in the media as saying that the move is a "politically important symbol which will increase our bargaining power with creditors, prevent the politicizing of issues, and keep everything confined to technical issues." Nonetheless, the GOI continues to be fully cooperative with donors: Siregar's hastily called meetings with major donors in the days following the announcement shows the GOI knows the importance of keeping the door open and maintaining dialog.

PASCOE